

## Message Text

SECRET

PAGE 01 STATE 052318  
ORIGIN DLOS-06

INFO OCT-01 IO-13 ISO-00 EB-08 FEA-01 USIE-00 ACDA-07  
AGRE-00 AID-05 CEA-01 CEQ-01 CG-00 CIAE-00 COME-00  
DODE-00 DOTE-00 EPA-01 ERDA-05 FMC-01 TRSE-00 H-01  
INR-07 INT-05 JUSE-00 L-03 NSAE-00 NSC-05 NSF-01  
OES-06 OMB-01 PA-01 PM-04 PRS-01 SP-02 SS-15 SAL-01  
INRE-00 SSO-00 NSCE-00 AF-08 ARA-06 EA-07 EUR-12  
NEA-10 /146 R

DRAFTED BY D/LOS:GTAFT  
APPROVED BY D/LOS:GTAFT  
EB/ORF/ISM:WWEINGARTEN  
-----092031Z 091477 /40  
O 092014Z MAR 77  
FM SECSTATE WASHDC  
TO USMISSION GENEVA IMMEDIATE

S E C R E T STATE 052318

PLEASE PASS AMBASSADOR RICHARDSON

E.O. 11652: GDS

TAGS: PLOS

SUBJECT: LAW OF THE SEA

REF: TAFT/JAMES TELCON 3/9/77

1. PRESIDENTIAL INSTRUCTIONS FOR 1975 GENEVA SESSION OF  
CONFERENCE APPROVED DELEGATION AUTHORITY TO ACCEPT DEEP SEA-  
BED REVENUE SHARING BASED EITHER ON A ROYALTY NOT TO EXCEED  
3 PER CENT OF THE VALUE OF PRODUCTION OR ON PROFIT SHARING  
NOT TO EXCEED 50 PER CENT OF PROFITS.

2. THE 3 PER CENT ROYALTY FIGURE WAS A BALLPARK ESTIMATE  
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STILL UNSUPPORTED BY THOROUGHGOING ECONOMIC ANALYSIS. AL-  
THOUGH SOME PRELIMINARY WORK HAS BEEN DONE BY INTERIOR DEPT  
TO DETERMINE APPROPRIATE FIGURES FOR BLANKS IN APPROACH A  
OF SPECIAL APPENDIX RSNT, NO DATA EXISTS ON THE EFFECT DIF-  
FERENT ROYALTY PERCENTAGES WOULD HAVE ON OCEAN MINING  
PROFITS.

3. KEY DIFFICULTIES WITH ROYALTY AS OPPOSED TO PROFIT-SHARING APPROACH ARE ITS IMPACT AS FIXED COST AND AS POSSIBLE FRONT-END PAYMENT COMMENDING AS SOON AS PRODUCTION BEGINS AND BEFORE SIGNIFICANT NET REVENUES ARE REALIZED. ACCORDINGLY, PERCENTAGE RATE MUST BE LOW AND PAYMENTS

PREFERABLY DEFERRED IN EARLY YEARS OF PRODUCTION. HENCE ROYALTY UNLIKELY TO BE FEASIBLE DURING EARLY START-UP OF ENTERPRISE.

4. GIVEN UNAVAILABILITY OF DATA ON ECONOMIC IMPACT OF VARIOUS ROYALTY RATES, WE RECOMMEND DELEGATION AVOID DISCUSSION OF PRECISE FIGURES, EMPHASIZING PRACTICAL REQUIREMENT THAT ROYALTY PERCENTAGE BE VERY LOW. 50 PER CENT PROFIT SHARING WAS ALSO A BALLPARK FIGURE, SUBJECT TO SIMILAR UNCERTAINTIES, IS RELATED TO QUESTION OF TAX CREDITS, AND SHOULD NOT BE USED IN DISCUSSIONS.

VANCE

SECRET

NNN

## Message Attributes

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**Disposition Date:** 22 May 2009  
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**Review Markings:**  
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